

VZCZCXRO6567

OO RUEHAG RUEHAST RUEHBI RUEHCI RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW
RUEHLA RUEHLH RUEHLN RUEHLZ RUEHNEH RUEHNP RUEHPOD RUEHPW RUEHROV
RUEHSR RUEHVK RUEHYG
DE RUEHTA #2291/01 3261024
ZNR UUUUU ZZH
O 211024Z NOV 08
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3885
INFO RUCNCIS/CIS COLLECTIVE 0827
RUCNCLS/SOUTH AND CENTRAL ASIA COLLECTIVE
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0226
RUEHKO/AMEMBASSY TOKYO 0936
RUCNDT/USMISSION USUN NEW YORK 2062
RUEHNO/USMISSION USNATO 2394
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 0394
RUEKJCS/SECDEF WASHDC 0309
RUEKJCS/JOINT STAFF WASHDC
RHMFIUU/CDR USCENTCOM MACDILL AFB FL

UNCLAS SECTION 01 OF 03 ASTANA 002291

SENSITIVE
SIPDIS

STATE FOR SCA/CEN, EEB/ESC, SCA/PPD, EUR/CARC
STATE PLEASE PASS TO USTDA DAN STEIN

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EAGR](#) [EPET](#) [EINV](#) [SOCI](#) [KPAO](#) [RS](#) [IR](#) [AJ](#)

TX, KZ

SUBJECT: KAZAKHSTAN: KULIBAYEV ON THE STATE OF THE ECONOMY,
HYDROCARBON TRANSPORTATION

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On November 20, Timur Kulibayev, newly-appointed Deputy Chairman of the Samruk-Kazyna Sovereign Wealth Fund, gave the Ambassador his assessment of the domestic impact of the global financial crisis and an update on new oil and gas transportation projects. He said that on November 25, the Government of Kazakhstan would announce new details of its bailout plan, including \$3.5 billion in assistance to the banking sector, \$1 billion for the agricultural sector, reduced interest rates for small and medium enterprises seeking loans, and fixed tariffs for power generation. Kulibayev said both the Prikaspiskii and trans-Caspian gas pipelines projects were essentially political projects and were not commercial priorities for Kazakhstan. When asked about Kazakhstan's plans to ship crude to Iran, Kulibayev said he was well aware of the U.S. embargo and said the government of Kazakhstan is not actively pursuing that option. END SUMMARY.

SAMRUK-KAZYNA CONSOLIDATES RESOURCES

13. (SBU) Timur Kulibayev is the billionaire son-in-law of President Nazarbayev and was appointed to be Deputy Chairman of the Samruk-Kazyna National Welfare Fund on October 17. He is simultaneously head of the business association KazEnergy, which includes all major oil companies doing business in Kazakhstan. Kulibayev told the Ambassador that the government merged the Samruk state assets holding company with the Kazyna Sustainable Development Fund in October to focus government resources on mitigating the effects of the global financial crisis. According to Kulibayev, Samruk-Kazyna will take over additional government-owned companies, including several in the mining and mortgage-banking sector, and is being provided with \$10 billion from the National (Oil) Fund to finance various stabilization measures, which reportedly will include its purchase of large stakes in key Kazakhstani banks. (NOTE: An additional \$5 billion in capital is being made available directly to banks through a reduction of their reserve requirements. END NOTE). Samruk-Kazyna will also manage an "asset stabilization fund," financed with \$433 million from the state budget, to buy up

bad loans from banks.

OUTLINE OF A BAILOUT PLAN

14. (SBU) On November 25, the government will announce additional measures to respond to the global financial crisis. For example, Kulibayev indicated that the National Fund would:

- invest \$3.5 billion to take equity positions in Kazkommertsbank, BankTuranAlem, Halyk Bank, and Alliance Bank;
- lower the interest rate for small and medium enterprises to access credit from 18% to 12.5%;
- for the first time since independence, create a strategic reserve of agricultural staples such as wheat, meat, vegetable oil, and sugar;
- invest an additional \$1 billion in food security, including upgrades to food storage and transportation infrastructure; and
- provide \$3 billion to the construction sector.

THE GENESIS OF THE CRISIS

15. (SBU) Kulibayev told the Ambassador that the financial crisis in Kazakhstan began with the banking crisis in August 2007. According to Kulibayev, local banks borrowed externally and refinanced repeatedly until they faced a severe liquidity shortage with the collapse of external lending. "Fortunately," he remarked ironically, "one advantage we have over the United States is that our stock exchange is not well developed," so the credit crunch was

ASTANA 00002291 002 OF 003

not exacerbated by a dramatic drop in share values. According to Kulibayev, Kazakhstani banks carry a total of \$40 billion in commercial debt, 50% of which is in construction, housing and other mortgage loans, but he was confident that the banks could meet all outstanding debts and even predicted that they would resume lending within six months. (NOTE: Timur and Dinara Kulibayev reportedly each own 50% of the Almex holding group, which in turn owns Halyk Bank, one of the four banks in which the government will take a 25% equity stake. END NOTE).

INFLUENCE OF THE RUSSIAN MEDIA

16. (SBU) Kulibayev calmly informed the Ambassador of the government's plans to manage the crisis and explained that the top priority now is to preserve stability and prevent panic. He noted that most Kazakhstanis get their news from Russian television and tend to follow the example of Russia. "If they see Russians on TV buying food in a panic, they'll do the same. We want to avoid that," he explained.

RETURN TO A COMMAND ECONOMY?

17. (SBU) When the Ambassador asked if the government's sizeable investments in private industry and its consolidation of state-owned assets could lead to a return to a command economy, Kulibayev paused, then turned the tables by saying, "The United States used to set the standard for all free-market economies. Now, the U.S. government is directly involved in the U.S. economy and has a huge influence over the private sector." He then turned philosophical, noting that it will take several years to determine the proper role for the government in the national economy. "It is clear that we need to make some changes to the regulatory institutions in order to get the balance right," he said. Kulibayev candidly admitted that the government could not do any long-range planning in the current environment, even with the help of world-class advisors from JP Morgan, Citigroup, McKinsey & Company, and the Boston Consulting Group. He estimated it would take one to two years before things settled down. He did say that under the government's most pessimistic scenario, they will draw down on the country's oil fund and hard currency reserves, while under their optimistic scenario, the government planned to use the revenue from the oil and gas to diversify the economy away from the extractive industries.

NEW ENERGY INITIATIVES UNDER REVIEW

¶8. (SBU) Kulibayev indicated that several major initiatives in the energy sector might have to be postponed, including development of a new national petrochemical industry, an agricultural fertilizer industry, and a state-owned mining holding company. He said that existing projects for the Batumi oil terminal in Georgia and the downstream assets of Rompetrol in Europe would be unaffected, but said future expansion projects would likely be put on hold.

TRANSPORTATION PRIORITIES

¶9. (SBU) Kulibayev said the government has three main options for transporting its oil and gas: Russia, China, and Azerbaijan. He said Russia has "always been a reliable partner" and is "our first priority." Next, he listed China, with which Kazakhstan shares a long border and is constructing gas and oil pipelines. He then referred to the recent trans-Caspian transportation agreement signed between Kazakhstan and Azerbaijan on November 14 and noted that shipment of oil from Baku onward, including the Baku-Supsa pipeline, is also an important transportation option for Kazakhstan. Kulibayev said KazMunaiGas and the international oil companies were content to ship oil westward via tanker rather than raise the difficult issues of Caspian Sea delimitation with construction of a pipeline. "It's funny," he said. "These projects all have undersea pipelines and they can get very close to each other, but cannot connect."

ASTANA 00002291 003 OF 003

PRIKASPIISKII PIPELINE "POLITICAL"

¶10. (SBU) Kulibayev was openly skeptical of the proposed Prikaspiskii gas pipeline, calling it a political, not commercial, project that exists only on paper. He was equally dismissive of the proposed trans-Caspian pipeline, calling it a "virtual project" that would not move forward without the agreement of all littoral states, particularly Iran and Russia, on the delimitation of the Caspian Sea. Kulibayev further doubted whether Turkmenistan would have gas resources sufficient to supply the pipeline after meeting current obligations to China, Russia, and Iran. He noted that Kazakhstan already has existing gas pipelines with a capacity of 10 billion cubic meters (bcm), waiting to be filled. "A new pipeline with a 30 bcm capacity does not make sense," he said.

THE SHORTEST ROAD

¶11. (SBU) When asked about Kazakhstan's plans to ship crude to Iran, Kulibayev responded quietly, "The route through Iran is the fastest way to reach the Asian market. And Iran is more politically stable than, say, Afghanistan. But we are well aware that the United States is opposed to shipments through Iran, so we are not actively pursuing that option." He then added, "We will wait and see, maybe there will be a change in this policy with the new administration in Washington."

¶12. (SBU) COMMENT: Kulibayev was calm, cool and collected throughout the meeting, pausing thoughtfully to ponder difficult questions and switching from Russian to English with ease. During the meeting, he eagerly went to a wall map to show the Ambassador the location of planned gas pipelines and when the meeting adjourned, he invited the Ambassador, with genuine pride for his capital city, to view Astana from his office on the 16th floor of the KazMunaiGas building. He clearly welcomed the opportunity to establish a strong and open relationship with the Ambassador and stressed the importance of U.S. investors and the U.S. government to Kazakhstan's continued development. Noting that a crisis often brings opportunities as well as challenges, he said, "Perhaps now the euphoria will die down and we will be more realistic and better prepared for the difficult decisions that lie ahead." END COMMENT.

HOAGLAND